AGENDA
FREMONT PUBLIC FINANCING AUTHORITY MEETING
JUNE 7, 2011
7:00 P.M.

1. CALL TO ORDER

2. CONSENT CALENDAR

Items on the Consent Calendar are considered to be routine by the Public Financing Authority and will be enacted by one motion and one vote. There will be no separate discussion of these items unless an Authority Member or citizen so requests, in which event the item will be removed from the Consent Calendar and considered in its normal sequence on the agenda. Additionally, other items without a "Request to Address the Public Financing Authority" card in opposition may be added to the consent calendar. (In the report section of the agenda, consent items are indicated by an asterisk.)

2.1 Approval of Minutes – None.

3. PUBLIC COMMUNICATIONS

3.1 Oral and Written Communications

4. PUBLIC HEARINGS – None.

5. OTHER BUSINESS

5.1 REDEVELOPMENT AGENCY ISSUANCE OF TAX ALLOCATION BONDS
Re-Authorization to Issue 2011 Redevelopment Agency Tax Allocation Bonds

Contact Person:

Name:	Elisa Tierney	Harriet Commons
Title:	Redevelopment Agency Director	Director
Dept.:	Housing and Redevelopment	Finance
Phone:	510-494-4501	510-284-4010
E-Mail:	etierney@fremont.gov	hcommons@fremont.gov

RECOMMENDATION: Staff recommends that the Authority Board act as follows:

1. Authorize the purchase of the 2011 Tax Allocation Bonds for concurrent resale to the underwriter.
2. Adopt a resolution authorizing the purchase and sale of tax allocation bonds of the Redevelopment Agency of the City of Fremont issued to finance redevelopment activities within or for the benefit of the Agency's Fremont merged redevelopment

project and approving related documents and actions.

3. Approve a bond purchase agreement relating to the 2011 Bonds, by and among the underwriter, the Authority and the Agency, in the form on file with the Authority Secretary (the "Bond Purchase Agreement"), together with such additions thereto and changes therein as the Executive Director, or his designee, shall deem necessary, desirable or appropriate.
4. Authorize and direct the Executive Director, or his designee, to execute the final form of the Bond Purchase Agreement for and in the name and on behalf of the Authority.
5. Authorize and direct the Executive Director and any and all other officers of the Authority to take any and all actions necessary to consummate the lawful issuance and sale of the 2011 Tax Allocation Bonds.

6. ADJOURNMENT

REPORT SECTION
FREMONT PUBLIC FINANCING
AUTHORITY REGULAR MEETING

JUNE 7, 2011

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Companion reports are on tonight's agendas for the City Council and the Redevelopment Agency.

Executive Summary: On January 17, 2011, the City Council and the Redevelopment Agency (RDA) Board approved the issuance of up to $140 million of tax allocation bonds by the Redevelopment Agency for the construction of infrastructure projects, the most significant one being the Irvington BART station. On January 25, 2011, the Public Financing Authority authorized the purchase and sale of the RDA's tax allocation bonds. The bonds were scheduled to price on February 24, but that did not occur because of uncertainty created by the posting of proposed legislation to "disestablish" redevelopment agencies on the State Department of Finance's website late in the day on February 23. On March 8, 2011, the City Council, Redevelopment Agency Board, and Public Financing Authority Board all directed staff to suspend the transaction because of uncertainties related to the Governor's budget proposal to eliminate redevelopment in California, and because the Agency had not yet formalized its arrangements with BART for construction of the Irvington BART station. Since that time, no further legislative action has been taken to eliminate redevelopment, and staff has made progress with BART with respect to construction of the Irvington BART station. Because of inaction by the State Legislature to eliminate redevelopment and progress made with BART with respect to construction of the Irvington BART station, staff believes it is prudent and in the best interests of the Agency, the City and the Authority to re-authorize the issuance of the 2011 Redevelopment Agency Tax Allocation Bonds in the aggregate principal amount of $140 million.

BACKGROUND: On January 10, 2011, the Governor released his 2011/12 budget proposal. The May update of his budget proposal (the so-called "May Revise") was released on May 16, 2011. A major provision of the Governor's original budget proposal, which is still included in the May Revise, is the proposed elimination ("disestablishment") of redevelopment agencies throughout the State by July 1, 2011. The elimination of redevelopment agencies as of July 1, 2011 would potentially mean the following:

- Full Agency closure by July 1, 2011. There would be no new allocation of tax increment revenues in future years, with the exception of sufficient future property taxes needed to meet future scheduled payments of each agency's existing obligations and debt service. A local "successor agency" would be established, whose purposes would be solely to receive sufficient future property taxes to make payments to retire the agency's existing debts and obligations, to liquidate the agency's assets, and to wind up the agency's existence.

- Unspent and unencumbered Housing Fund balances would, if elected by the City, be retained by the City. If the City elects to retain the housing function of the former RDA (staff assumes it would choose to do so), than all rights, powers, assets, liabilities, duties and obligations associated with the housing function would remain with the City but with no future funding for affordable housing proposed.

This continues to be a contentious proposal, currently without sufficient support in the Legislature for enactment. Both the California Redevelopment Association and the League of California Cities continue to vigorously lobby against this proposal, and two redevelopment reform bills, SB 450 relating to housing reforms, and SB 286 relating to general reforms of redevelopment, have been introduced and are under consideration. There appears to be no more certainty that the Governor's proposal will be enacted now than there was three months ago.

DISCUSSION/ANALYSIS: With the adoption of the 2010 Merged Project Area Plan Amendment, a revenue stream has been secured for construction of future redevelopment-related improvements, including the Irvington BART station. As a result, the Agency and City initiated activity on the Irvington BART project, including approval of a $5.3 million pre-engineering funding agreement with BART to begin the process of moving forward with the Irvington BART station. Staff has been working closely with BART staff to formalize the responsibilities for the process of land acquisition, development and construction of the station. If developed soon, BART has indicated it can build the station as part of the development of the Warm Springs extension, thereby saving the Agency significant costs.

Given the Agency's other priority projects and its low available cash position, discussions have been underway for some time to issue Tax Allocation Bonds to raise the $120+ million in funding necessary for BART station construction.

Proposed Debt Issue: Issuance of tax allocation bonds is a routine method for financing redevelopment projects prior to collection of tax increment. Although the tax increment revenue cap in the Industrial project area was recently raised from $400 million to $1.5 billion, those revenues will be received over the next 25 years. Issuing tax allocation bonds means those resources are available for large projects sooner. Staff has been contemplating the issuance of debt for construction of the Irvington BART station, the largest project funded by the Plan Amendment, since the raising of the tax increment revenue cap. Since the original authorization to proceed with this transaction, staff has worked with the financial advisor (KNN Public Finance), bond counsel (Quint & Thimmig), Redevelopment Agency special counsel (Goldfarb & Lipman), and underwriters (Goldman Sachs) to structure and market this issue. The proposed issue has been rated A+ by Standard & Poor's and A-2 by Moody's. Both ratings reflect the financial strength of the Agency, as well as the solid nature of the project to be funded with the bond proceeds.

Proposed Financing Structure: The following estimated amounts reflect market conditions at the time of agenda preparation. The actual costs may differ from this estimate at the time of bond sale, but the maximum principal amount will not exceed the $140 million proposed par amount. The following information is based on an estimated issuance amount of $134,720,000.

Par Amount	$134,720,000
Term	25 Years, Final Maturity September 1, 2036
Average Interest Rate	6.10%
All-Inclusive True Interest Cost	6.37%
Average Annual Debt Service Payment	$10,624,050
Reserve/Capitalized Interest Fund	$10,698,406

The All-Inclusive True Interest Cost includes underwriter's fees and costs of issuance (legal and financial consultant fees, trustee fees, credit rating agency fees, etc.). Although the City has experienced lower interest costs on its variable rate demand certificates of participation, fixed rate financing is the more common structure for tax allocation bonds. Although the City and Agency generally sell long-term debt competitively, this transaction is proposed as a negotiated sale because of the unique circumstances in the municipal markets with respect to redevelopment agency debt issues. The financial advisor for this transaction, KNN Public Finance, requested proposals from a number of underwriters as to their approach and fees for this particular transaction. The successful proposer was Goldman Sachs, based on both their fees and their approach to aggressively marketing this issue to obtain the most beneficial interest rate for the City, the Agency and the Authority.

To effectuate this transaction, the Authority would purchase the 2011 Bonds from the Agency and concurrently resell the bonds to the underwriter, so long as the total underwriter's discount, excluding original issue discount (which does not constitute compensation to the underwriter), does not exceed 3% of the principal amount of the 2011 Bonds. In addition, the true interest cost of the Bonds could not exceed 8.25%, and the final maturity date could not be later than September 1, 2036. If State legislation is enacted to prohibit the sale, this debt issuance will be postponed or cancelled.

The issuance of the Bonds will be conditioned on the Agency and the City entering into a satisfactory definitive agreement for the Agency to fund and BART to design and construct the Irvington BART station with City input, review and oversight. That agreement with BART is being readied for Agency Board and City Council consideration, tentatively scheduled for June 21. At the time the Agency Board and the City Council are requested to act on the BART agreement, they will also be asked to make the appropriate CEQA compliance determinations and Community Redevelopment Law findings related to the Agency's proposed public improvements grant to BART for the Irvington Station design and construction.

The following table shows the estimated sources and uses of bond proceeds:

SOURCES:	
Par Amount	$134,720,000
USES:	
Projects	$120,000,000
Reserve/Capitalized Interest Fund	10,698,000
Underwriter's Discount	662,000
Cost of Issuance	535,000
Net Original Issue Discount	2,825,000
TOTAL USES	$134,720,000

If the Legislature approves the Governor's budget proposal to eliminate redevelopment, then beginning in fiscal year 2012/13, the property tax revenue that, under current law would have been considered property tax increment, would be first used by the "successor agency" to the disestablished Fremont Redevelopment Agency to pay the recognized debts of the former Redevelopment Agency. The balance of such freed-up property taxes would then be divided among the taxing entities and local jurisdictions. This would mean that instead of a pass-through payment from the Agency, the City would receive its normal property tax share (approximately 15%) of such freed-up property tax revenues, including incremental assessed valuation growth in the redevelopment project areas.

FISCAL IMPACT: The Redevelopment Agency currently receives approximately $34.5 million in tax increment revenue annually. If no new Agency indebtedness is issued and this revenue instead were to be distributed to the City and other taxing entities under an enacted form of the Governor's budget proposal, the City's share would be approximately $4-5 million. This assumes the Agency has no other existing outstanding debt and the current Agency/City Master Public Improvements Agreement is not followed in the future. This General Fund revenue would be unrestricted and the City would be free to spend the revenue however it chooses.

If the Agency were to issue bonds that are recognized as a pre-existing debt under an enacted version of the Governor's budget proposal, the pool of available property tax revenue would be reduced by an amount that the "successor agency" would first draw down to pay the annual bond debt service, with a resulting impact on the City's General Fund. With annual debt service of $10.7 million, the net property tax revenue to be distributed among local governments after payment of the proposed bond debt service would be $34.5 million minus $10.7 million, or $23.8 million. While this would mean a decrease of $1.6 million in net tax revenue to the City's General Fund ($3.6 million instead of $5.2 million), it would mean that $120 million for construction of the Irvington BART station would be secured.

Financing Team: Staff will continue working with KNN Public Finance as financial advisor, and Quint & Thimmig as bond counsel and disclosure counsel. Goldfarb & Lipman, special counsel retained by the Agency, will also review the documents. Seifel Consulting, Inc., the Agency's financial consultant, will provide the analysis to make sure that tax increment to be collected is sufficient to pay the obligation. Union Bank will serve as bond trustee, and Goldman Sachs will serve as underwriter.

ENVIRONMENTAL REVIEW: None required.

ENCLOSURES: Draft Resolution

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